Audit of Road Maintenance and Silviculture Obligations

Carrier Lumber Ltd.

Replaceable Forest Licences A15429 and A15430

FPB/ARC/95

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Board Commentary

In spring 2007, the Board randomly selected the Robson Valley Timber Supply Area (TSA) portion of the Headwaters Forest District as a location for an audit, (see map on page 4) and subsequently learned that two of the largest forest licencees in the TSA had recently ceased operations due to financial problems.

A licensee in financial difficulty may not meet all of its obligations such as maintaining roads or planting trees. If a licensee goes into receivership or abandons a licence, it is the taxpayers of British Columbia that may have to pay to address outstanding obligations on Crown land.

In the past, the Board has expressed concern about financially strapped companies failing to meet outstanding obligations. As a result, the audit focused on the status of the outstanding obligations of these two licences.

In August 2007, the Board conducted a limited scope compliance audit of Carrier Lumber Ltd.'s forest licences A15429 and A15430 with a focus on potentially outstanding road maintenance and silviculture obligations. The audit assessed approximately 860 kilometres of road maintenance; maintenance of more than 100 bridges and major culverts; and silviculture obligations related to 46 cutblocks, including the planting of over 560,000 seedlings prior to Carrier fully securing forest licence A15429.

In this case, Carrier obtained the rights to these licences, including the obligations that came with them. The Board is pleased to note that the activities conducted by Carrier to fulfill these obligations are in compliance, and the Board notes that Carrier is working diligently to catch up and fulfill any outstanding obligations.

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Carrier Lumber Ltd. - FL A15429 and FL A15430

Audit Results

Background

As part of the Forest Practices Board's 2007 compliance audit program, the Board audited two replaceable forest licences in the Robson Valley Timber Supply Area (TSA). This audit report is for Carrier Lumber Ltd.'s (Carrier) forest licences A15429 and A15430. Additional information about the Board's compliance audit process is provided in Appendix 1.

In spring 2007, the Board randomly selected the Robson Valley Timber Supply Area portion of the Headwaters Forest District as a location for an audit. (See map on page 4). After assessing the activities within that area, auditors noted that the licensees holding the two largest forest licences in the TSA had recently closed operations due to financial problems. Therefore, the audit focused on the status of the outstanding obligations of these two licences.

After an initial notification letter was sent to the Headwaters Forest District, auditors determined that Carrier Lumber Ltd. had taken over both licences. Forest licence A15430, which has an allowable annual cut (AAC) of 75,018 cubic metres, was acquired in June 2006, and forest licence A15429, with an AAC of 186,428 cubic metres, was acquired in June 2007.

The Robson Valley TSA is located in east-central British Columbia within the Rocky Mountain Trench, southeast of Prince George. The operating areas cover a long section of the Robson Valley from approximately 60 kilometres north of the community of McBride to approximately 75 kilometres south of the village of Valemount, including Kinbasket Lake. Terrain within the operating areas is varied. The low elevation land in the Robson Valley is flat to rolling and soils are generally stable. However, terrain in the adjacent mountains is rugged with numerous deep valleys and steep forested lower slopes. The surrounding landscape includes high mountains that are subject to deep snow conditions and long winters. Fish streams and domestic water intakes are most abundant at the lower elevations and valley bottoms. The Board's audit fieldwork took place from August 20 to 24, 2007.

Robson Valley North of McBride

Audit Approach and Scope

The Board conducted a "limited scope" compliance audit, focusing on road and bridge maintenance obligations, as well as silviculture obligations and associated planning for forest licences A15429 and A15430.

Road and bridge maintenance activity, regeneration and free-growing obligations, and associated planning were examined. The activities relating to road maintenance and silviculture obligations for the period August 1, 2005, to August 24, 2007, were included in the scope of the audit. These activities were assessed for compliance with the *Forest Practices Code of British Columbia Act* (the Code) and the *Forest and Range Practices Act* (FRPA)[1] and related regulations.

The Board's audit reference manual, *Compliance Audit Reference Manual, Version 6.0, May 2003,* and the addendum to the manual for the 2007 audit season, set out the standards and procedures that were used to carry out this audit.

Practices Examined

The transfer of the forest licences to Carrier included transferring responsibility to maintain roads and bridges and to establish free-growing stands on harvested cutblocks. The audit team assessed the condition of roads and bridges, as well as cutblocks, to assess performance in meeting regeneration and free-growing obligations due by the end of the audit period for both forest licences.

Forest Licence A15429
The Board audited 283 of the 524 kilometres of road that was to be maintained, as well as 24 of the 68 bridges and major culverts. The Board also assessed all seven regeneration cutblocks and all five free-growing cutblocks.

The auditors noted that Carrier took steps to ensure that seedlings ordered by the previous licensee were planted. Carrier paid for more than 560,000 seedlings and the planting of those trees. Carrier undertook this work before government formally approved the transfer of the licence.

Forest Licence A15430
The Board audited 214 of the 342 kilometres of road that was to be maintained, as well as six of the 41 bridges and major culverts. The Board also assessed 25 of 29 regeneration cutblocks and four of five free-growing cutblocks.

Carrier is currently addressing the road and bridge maintenance responsibilities, as well as reviewing the silviculture records and completing silviculture surveys, prior to finalizing its silviculture programs for 2008. Although not all outstanding road maintenance items for forest licence A15429 were complete at the time of the audit, the roads and bridges were being systematically inspected and deficiencies are being identified and repairs scheduled on a priority basis. Catching up with these road obligations is a work in progress.

Findings

The audit found that roads and bridges are being maintained, and regeneration and free-growing obligations are being met on forest licences A15429 and A15430. The road and bridge maintenance and silviculture performance on the licences complied in all significant respects with the requirements of the Code and FRPA and related regulations.

Audit Opinion

In my opinion, the road and bridge maintenance, silviculture activities and the associated operational planning carried out by Carrier Lumber Ltd. on replaceable forest licences A15429 and A15430 for the period August 1, 2005, to August 24, 2007, complied in all significant respects with the requirements of the *Forest Practices Code of British Columbia Act* and the *Forest and Range Practices Act* and related regulations as of August 2007.

In reference to compliance, the term "in all significant respects" recognizes that there may be minor instances of non-compliance that either may not be detected by the audit, or that are detected but not considered worthy of inclusion in the audit report.

The *Audit Approach and Scope* and the *Practices Examined* sections of this report describe the basis of the audit work performed in reaching the above conclusion. The audit was conducted in accordance with the auditing standards of the Forest Practices Board. Such an audit includes examining sufficient forest planning and practices to support an overall evaluation of compliance with the Code and FRPA.

C R Mosher

Christopher R. Mosher CA, CEA(SFM)
Director, Audits
January 14, 2008

[1] Most of the *Forest Practices Code of British Columbia Act* (the Code) was repealed on January 31, 2004 and replaced with the *Forest and Range Practices Act* (FRPA). The transitional provisions of FRPA state that the Code continues to apply to forest practices carried out under a forest development plan. This continues until there is an approved forest stewardship plan, at which point, the requirements of FRPA apply. Therefore, although FRPA came into effect prior to the audit period, the legislated forest practices requirements that applied to the auditee were the requirements of the Code.

Appendix 1:
Forest Practices Board Compliance Audit Process

Background

The Forest Practices Board conducts audits of government and agreement-holders under the *Forest and Range Practices Act* (FRPA), section 122, and the *Wildfire Act* (WA). Compliance audits examine forest or range planning and practices to determine whether or not they meet FRPA and / or WA requirements. (The transitional provisions of FRPA state that the Code continues to apply to forest practices carried out under a forest development plan, until there is an approved forest or range stewardship plan, at which point the requirements of FRPA apply.)

Selection of auditees

The Board conducts about eight or nine compliance audits annually. Most of these are audits of agreement holders. The Board also audits the government's BC Timber Sales Program (BCTS). This section describes the process for selecting agreement holders to audit.

To begin with, auditors randomly select an area of the Province, such as a forest district. Then the auditors review the forest resources, geographic features, operating conditions and other factors in the area selected. These are considered in conjunction with Board strategic priorities (updated annually), and the type of audit is determined. At this stage, we choose the auditee(s) that best suits the selected risk and priorities. The audit selections are not based on past performance.

For example, in 2007, the Board randomly selected the Robson Valley Timber Supply Area as a location for an audit. After assessing the activities within that area, we discovered that two licensees had recently closed operations due to financial problems. As the Board has expressed concern in the past about financially strapped companies failing to meet outstanding obligations, such as reforestation, and road maintenance, the audit focused on the status of the outstanding obligations of these two licences.

For BCTS audits, a forest district within one of the 12 business areas within the province is selected randomly for audit.

Audit Standards

Audits by the Board are conducted in accordance with the auditing standards developed by the Board. These standards are consistent with generally accepted auditing standards. The standards for compliance audits are described in the Board's *Compliance Audit Reference Manual*.

Audit Process

Conducting the Audit

Once the Board randomly selects an area or district and determines the scope of audit to be conducted and the licensee(s) to be audited, all activities carried out during the period subject to audit are identified (such as harvesting or replanting, and road construction or deactivation activities). Items that make up each forest activity are referred to as a population. For example, all sites harvested form the timber harvesting population and all road sections constructed form the road construction population.

A separate sample is then selected for each population (e.g., the cutblocks selected for auditing timber harvesting). Within each population, more audit effort (i.e., more audit sampling) is allocated to areas where the risk of non-compliance is greater.

Audit field work includes assessments of features using helicopters as well as ground procedures, such as measuring specific features like riparian reserve zone width. The audit teams generally spend one to two weeks in the field.

Evaluating the Results

The Board recognizes that compliance with the many requirements of the Code, FRPA and WA, is more a matter of degree than absolute adherence. Determining compliance, and assessing the significance of non-compliance, requires the exercise of professional judgment within the direction provided by the Board.

The audit team, composed of professionals and technical experts, first determines whether forest practices comply with legislated requirements. For those practices considered to not be in compliance, the audit team then evaluates the significance of the non-compliance, based on a number of criteria, including the magnitude of the event, the frequency of its occurrence and the severity of the consequences.

Auditors categorize their findings into the following levels of compliance:

Compliance – where the auditor finds that practices meet Code, FRPA and WA requirements.

Not significant non-compliance – where the auditor, upon reaching a non-compliance conclusion, determines that one or more non-compliance event(s) is not significant and not worthy of reporting. Therefore, this category of events will not be included in audit reports.

Significant non-compliance – where the auditor determines a non-compliance event(s) or condition(s) is or has the potential to be significant, and is considered worthy of reporting.

Significant breach – where the auditor finds that significant harm has occurred, or is beginning to occur, to persons or the environment as a result of one or many non-compliance events.

If it is determined that a significant breach has occurred, the auditor is required by the *Forest Practices Board Regulation* to immediately advise the Board, the party being audited, and the Minister of Forests and Range.

Reporting

Based on the above evaluation, the auditor then prepares a draft audit report. The party being audited is given a draft of the report for review and comment before it is submitted to the Board.

Once the auditor submits the draft report, the Board reviews it and determines if the audit findings may adversely affect any party or person. If so, the party or person must be given an opportunity to make representations before the Board decides the matter and issues a final report. The representations allow parties that may potentially be adversely affected to present their views to the Board.

The Board then reviews the auditor's draft report and the representations from parties that may potentially be adversely affected before preparing its final report. Once the representations have been completed, the report is finalized and released: first to the auditee and then to the public and government.

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